

Deferred Compensation

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Montgomery County Deferred Compensation Plan

Important Information

This booklet provides summary information about the County's Deferred Compensation Plan. The official Plan Document is the sole source for determining legal and operational issues related to the Plan. In the event there is an inconsistency between this booklet and the Plan Document, the Plan Document will prevail.

This booklet reflects provisions made possible by the enactment of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). While EGTRRA allows a January 1, 2002 effective date for many of these new provisions, their availability to participants in the Montgomery County Deferred Compensation Plan is subject to amendment of the official Plan Document and, in some cases, the implementation of appropriate supporting systems.

***Note:** The Deferred Compensation Plan is a voluntary savings and investment plan for the primary purpose of saving for retirement. It is **not** the same as the County's Retirement Savings Plan (RSP), or the Employees' Retirement System (ERS), which are separate and distinct retirement plans offered by the County.*

General Information/ Eligibility

Q. What is the Deferred Compensation Plan?

A. The Deferred Compensation Plan ("the Plan") is a tax-deferred investment plan for retirement, authorized under Section 457 of the Internal Revenue Code and is intended to supplement your retirement income. As an eligible employee, you may choose to have a portion of your current, pre-tax earnings withheld and invested for payment to you at a later date. Since this plan is intended to provide savings for your retirement, **withdrawal of your account balances is usually allowed only at retirement or upon separation from employment.**

Q. Who is eligible to participate?

A. Eligible employees include all Montgomery County elected and appointed officials and permanent, full-time and part-time employees. Employees of the Circuit Court are also eligible.

Q. How does it work?

A. If you choose to enroll, you will determine the amount you wish to contribute each pay period, subject to the limitations described in the next section. The amount you determine will be automatically deducted from your bi-

weekly paycheck before taxes are withheld and will be invested as you direct with one or both of the County's service providers for this Plan. You may change your contribution amount only during Open Seasons. However, you may stop contributions at any time.

Your earnings will accumulate tax-deferred until the time you're eligible to withdraw your account balances. **Due to Internal Revenue Code requirements, withdrawals are rarely allowed prior to retirement or separation from employment with the County.**

Q. Are there contribution limitations?

A. Yes. The maximum contribution limit is \$12,000 for calendar year 2003, or 100% of your includable compensation, whichever is less. (\$12,000 divided by 26 pay periods is \$461.53 per pay period.) The \$12,000 contribution limit will increase by \$1,000 per year to a limit of \$15,000 in 2006. The limit will be indexed for inflation in \$500 increments after 2006.

This contribution limit applies to all contributions to any deferred compensation plans (Internal Revenue Code 457 plans) in which you participate in a given calendar year.

Note: Your contribution may exceed these limits if you qualify for the "catch-up" provisions. (See page 7.)

Tax Advantages

Q. Does participation in the Deferred Compensation Plan offer tax advantages?

A. Normally, yes. First, the amount deferred is deducted from your salary before taxes are withheld, so the amount of your income subject to tax is lowered in the years in which you participate. Second, your earnings on the amount deferred are tax-deferred until the time you withdraw your account balances. Under current law, you pay ordinary income tax as you receive payments from your account, usually at the time of retirement, when, normally, your income will be lower. However, this may not be the case in your situation, so you may want to consult your tax advisor.

Service Providers and Investment Information

Q. Who are the service providers for the Montgomery County Plan and what are the investment options available?

A. The County's two service providers are Fidelity Investments and The Hartford. Each provider offers a variety of investment options, including stocks, bonds, and mixed funds. You may choose to contribute to investment options offered by one or both providers, as long as the required contribution limitations are observed. Please call the

providers directly with your questions. Direct links are provided from the Resource Library at montgomerycountymd.gov

Q. How can I get assistance choosing a service provider or making investment selections?

A. You should review the enrollment information packets provided by Fidelity and The Hartford which are available from the providers or from the Office of Human Resources, EOB, 7th floor. In addition, both Fidelity Investments and The Hartford are available to provide assistance in reviewing your individual investment needs. Information is available on their Web sites. You may contact these providers directly by phone for assistance or to schedule an individual counseling session:

- ❑ Fidelity Investments: 1-800-430-2363
netbenefits.publicsave.com
- ❑ The Hartford: 1-800-243-7782, 2, Ext. 207
retire.hartfordlife.com

Note: *The Office of Human Resources cannot advise you on your investment decisions.*

Enrollment and Changes

Q. When may I enroll?

A. Eligible employees may enroll in the Plan within the first 90 days of employment or during Open Seasons, which occur in March, June, September, and December of each year. If you enroll within the first 90 days of employment, your contributions will begin in the following pay cycle. If you enroll (or change your contribution amount) during an Open Season, your new contributions will begin three to five weeks following the close of Open Season.

During the Open Seasons, you may

- ☐ Enroll or re-enroll;
- ☐ Change contribution amounts (increase or reduce);
- ☐ Change providers or add a second provider, *without moving existing account balances from the current provider*;
- ☐ Begin "catch-up" contributions. (See page 7.)

Q. How do I enroll?

A. To enroll, or to change providers (for future contributions) complete the following:

- ☐ Deferred Compensation Joinder Agreement and Change Form;
- ☐ Investment election form(s) for each provider.

Joinder Agreement and Change Forms and provider investment election forms are available in the Office of Human Resources, EOB, 7th floor.

Remember, enrollment or changes to contribution amounts or providers may only take place during the Open Seasons or within the first 90 days of employment.

Completed forms must be received in the Office of Human Resources by 5:00 p.m. on the last business day of the Open Season. Forms received after the end of the Open Season will be returned to you for submission during the next Open Season.

Q. How do I make changes to my contribution amounts?

A. During an Open Season, you'll need to complete a new Deferred Compensation Joinder Agreement and Change Form and indicate the new amount to be deferred. Remember, there are limitations to the amounts that can be deferred. (See page 2.)

Completed forms must be received in the Office of Human Resources by 5:00 p.m. on the last business day of the Open Season. Forms received after the end of the Open Season will be returned to you for submission during the next Open Season.

Q. When will my new contribution be reflected in my paycheck?

A. Changes will be reflected three to five weeks after the close of the Open Season.

Q. How do I report a change of address or phone number?

A. For address or telephone number changes, please complete the County's Personal Data Form with the new information and submit it to the Records Management Team, Office of Human Resources, EOB, 8th floor.

Q. How do I make a change to a beneficiary?

A. To change beneficiary information for your deferred compensation account, complete a new Joinder Agreement and Change Form with the new information. This may be done at any time. Submit the form to the Office of Human Resources, EOB, 7th floor.

Q. How do I change my investment selections?

A. Your investment selections with the service providers may be changed at any time by contacting the providers directly.

❑ Fidelity Investments:
1-800-430-2363
netbenefits.publicsave.com

❑ The Hartford:
1-800-528-9009
retire.hartfordlife.com

Stopping Contributions

Q. May I stop making contributions?

A. Yes, you may stop your contributions at any time by completing a Joinder Agreement and Change Form and submitting it to the Office of Human Resources, EOB, 7th floor. However, you may restart your contributions only by re-enrolling during an Open Season.

Transferring Account Balances

Q. May I transfer my account balances from one investment option to another if they're offered by the same service provider?

A. Yes. You can change investment options offered by the same provider at any time by contacting the provider directly.

Q. May I transfer account balances from one County service provider to another?

A. Yes. You may transfer account balances from one Montgomery County service provider to another at any time, while continuing to participate in the plan. Contact the Benefits Team, Office of Human Resources, at 240-777-5000 for an application form for the provider who will be accepting the transferred account balances.

Q. May I roll over account balances from other types of retirement plans into the County's Plan?

A. You may roll over account balances from another governmental Section 457 deferred compensation plan, if that plan permits transfers. Beginning in 2002, EGTRRA allowed for the rollover of eligible rollover distributions from a qualified 401 plan, a 403(b) plan, or traditional IRA into a Section 457 deferred compensation plan.

Please note that the availability of the new rollover provisions is subject to amendment of the official Plan Document and the implementation of supporting record-keeping procedures by the service providers.

Only funds that qualify as an "eligible rollover distribution," as defined by the Internal Revenue Code, may be rolled over. This generally includes lump sum distributions, and distributions in installments of less than 10 years. It does

not include annuity payments or minimum required distributions after age 70 ½. Amounts rolled over will be treated as if they had originally been deferred under the County's Plan, and all County Plan provisions will apply to those account balances rolled over. Contact the Benefits Team, Office of Human Resources at 240-777-5000 for the proper application forms.

Investment Reports and Fees

Q. Do I receive reports on how my investments are doing?

A. Yes. Account statements and investment performance reports are mailed to your home quarterly. Also, account balances and mutual fund share prices are available daily through toll-free customer service lines for each provider or at the provider's web site:

- ❑ Fidelity Information:
1-800-430-2363
netbenefits.publicsave.com
- ❑ The Hartford:
1-800-528-9009
retire.hartfordlife.com

Q. Do the providers charge fees for their services?

A. Yes. All mutual funds include investment and administrative fees that cover the costs of managing the funds.

These fees are charged on a percentage basis within each fund and are deducted from each fund prior to share pricing. The share pricing is “net” of fees, which vary by fund.

Other fees or charges, which you should review before you enroll, may also be applied to your account by your service provider.

Service and fee disclosure information is updated annually and is available in the Office of Human Resources, EOB, 7th floor. You are encouraged to contact your provider or review the fund prospectus available from the provider to determine all applicable fees, including expense ratios and other percentage charges to determine costs associated with your investments.

Catch-up Provisions

Q. What if I've worked for the County for several years, but only recently enrolled in the Deferred Compensation Plan or haven't deferred the maximum that I could have contributed?

A. Beginning in 2002, there are two different catch-up elections.

Last Three Years Catch-up

During the last three taxable years ending before the year in which you attain normal retirement age, your contribution amount may be increased to the lesser of the following amounts:

1. Double the applicable normal contribution limit for the year. For example, 2 times \$12,000 or \$24,000 in 2003 (before 2002, this amount was limited to \$15,000).
2. The amount of unused normal contribution limits for all prior years you were eligible for this Plan.

This catch-up can only be used during the last three taxable years ending before the year in which you attain normal retirement age, and can never be used again.

You may apply for this catch-up provision by contacting the Benefits Team, Office of Human Resources at 240-777-5000. If you were previously approved for catch-up under the overall \$15,000 limit and have remaining eligibility for 2003, you may apply to convert to an increased amount by contacting the Benefits Team. You may increase your contributions prior to being approved for the new catch-up limit. However, the payroll system will cap your annual contributions at your old limit until you are approved for the increased amount.

Age 50 Catch-up

As an alternative, if you are (or will be during 2003) age 50 or older, you are eligible to automatically make contributions in excess of the normal contribution limit for a calendar year. The additional amount of contribution for the new “age 50 catch-up” will be \$2,000 in 2003. Therefore, if you are age 50 or older in 2003, you may contribute up to \$14,000 in 2003 - \$12,000 under the normal contribution limit and up to \$2,000 in age 50 catch-up amounts. The

age 50 catch-up amount will increase by \$1,000 per year to \$5,000 in 2006. The amount will be indexed for inflation in \$500 increments after 2006.

No special application is required to participate in the age 50 catch-up. If you are 50 or older, simply consider your overall contribution limit for the year as the normal contribution limit plus the special age 50 catch-up amount.

Also, you cannot use the “age 50 catch-up” in any year in which the “last three years catch-up” applies.

Hardship Withdrawal

Q. May I withdraw money from the Plan if I need it before retirement?

A. Loans from your deferred compensation account are **not** permitted under the Plan. Withdrawals (either partial or full) prior to retirement or separation from employment with the County are **rarely** allowed and only in the case of extreme and **unforeseeable** financial hardship as defined by the Internal Revenue Code. For example, withdrawal of funds to pay credit card or college expenses, or to buy a house or car would **not** be considered an unforeseeable financial hardship. Contact the Benefits Team, Office of Human Resources at 240-777-5000 for more information on hardship withdrawal.

What to do at Retirement or Separation from Employment

Q. What do I need to do if I'm getting ready to retire or leave County employment?

A. On separation from employment or retirement from Montgomery County, you may choose to:

- ☐ Maintain your account in the Plan; or
- ☐ Withdraw all or a portion of your account through a systematic withdrawal program or annuity option; or
- ☐ Roll over your account balances to another eligible retirement plan, such as a governmental 457 plan, a 403(b) plan, a qualified 401 plan, or a traditional IRA.

Information regarding your deferred compensation account will be mailed to your home address directly from the Service Providers approximately three weeks after receipt of your last County check. Read these materials carefully.

Q. May I contribute to deferred compensation from my leave balance pay-out?

A. Not at this time. Previously, the Internal Revenue Code did not allow for the deferral of compensation from annual

leave or compensatory time to the deferred compensation plan. The final regulations associated with EGTRRA will be reviewed to determine if there has been a change to this provision.

Information Sources

- ❑ **Visit OHR's on-line Resource Library at montgomerycountymd.gov or contact the Office of Human Resources, Benefits Team, EOB, 7th floor, 240-777-5000, (benefits@co.mo.md.us) for:**
 - General plan information
 - Forms
 - Withdrawal information packet
 - Catch-up provision information
- ❑ **Contact Fidelity Investments by phone at 1-800-430-2363 or visit their Web site at netbenefits.publicsave.com**
or
- ❑ **Contact The Hartford by phone at 1-800-243-7782, 2, Ext. 207, or visit their Web site at retire.hartfordlife.com**
for:
 - Investment fund information and counseling
 - Information on reports and fees
 - Payout/withdrawal options
 - Changing addresses – *separated or retired employees only*

Note: This information can be made available in an alternate format, if necessary. Contact the Office of Human Resources, Benefits Team at 240-777-5000.